

# MUHAMMAD YUNUS



MUHAMMAD YUNUS is the founder of Grameen Bank in Bangladesh. He shared the 2006 Nobel Peace Prize with Grameen Bank and received the 1994 World Food Prize.

## Credit for the Poor

### Poverty as Distant History

**I**n our data-driven analysis of economic development and poverty, it is often difficult to remember that poverty was not created by the poor, but is rather a result of the socioeconomic system we have designed for the world. The poor are the victims of the very institutions that we have built and feel so proud of, and their continuous plight stems from our inability to think beyond the dominant theoretical frameworks of macroeconomics. Reliance on flawed concepts explains why the interactions between institutions and people have resulted in policies that produce poverty, rather than alleviate it, for so many human beings. The fault of poverty therefore lies with the top of society, with policymakers and academics. It does not reflect any lack of capability, desire, or effort on the part of the impoverished.

In my mind, it is possible to envision a world without extreme poverty, where imaginations of poverty will be of the distant past. But in order to reach this goal—to reduce and ultimately eliminate poverty—we must go back to the drawing board. It is unthinkable that the concepts, institutions, and analytical frameworks that have created and perpetuated poverty will be able to end it. Instead, we must intelligently reconstruct the economic framework and redesign these institutions along principles that better serve the poor. In doing so, we can affirm their basic human right to dignity and

work with them to serve their needs in a sustainable way.

I became involved in the effort against poverty not as a policymaker or as a researcher, but as an individual concerned by the destitution around me. Grameen Bank, a personal project I started over 30 years ago, serves as a testament to the power of alternatives to the conventional banking techniques espoused by our current economic system. By setting a precedent for the efficacy of microcredit and the reliability of the poor, Grameen Bank has inspired many similar banks around the world engaged in eliminating poverty. Most important is that these banks are designed with the poor in mind. While conventional banks exclude the poor with impossible loan conditions, inaccessibility, and bureaucracy, Grameen and others have eliminated many of these difficulties. Sending bank officials to villages gives the poor convenient access to credit, while collateral-free loans make it possible for the poor to lift themselves out of poverty. Paperwork and forms have been simplified to accommodate the illiteracy of bank beneficiaries. Similarly, a new solution calls for removing the pressures of legal reprisal that plague borrowers by abolishing the legally-binding quality of loans, thereby removing potential doubts and fears about obtaining credit.

In order to design systems that are more accessible to the poor, the institutions fighting poverty must understand the limitations faced by the poor and seek to work around them.



We must create a new system that expands the horizons of our economic understanding to best serve these communities by redefining traditional notions of credit, reaffirming self-employment, and creating social businesses.

### *The Shortcut of Self-Employment*

The most important step to ending poverty is the creation of employment and income opportunities for the poor. While insufficient infrastructure and often inefficient markets in the lesser-developed world make it difficult for populations to find jobs, the unemployed can still create their own work and a sustainable living wage for themselves. Orthodox economics recognizes wage-employment, but it has been deficient in commenting on self-employment. This omission is a grave mistake. Promoting self-employment is the quickest and easiest way to create jobs for the jobless and to help the poor break a recurring cycle of debt and deeper poverty.

Credit is essential for the creation of instant self-employment, since it provides the investment that leads to small businesses and income for the impoverished. For example, with access to credit in the form of a microloan, a poor woman who cannot work because of familial reasons can invest in a stock of chicken. She can then sell the eggs and raise chickens for her family's livelihood. Such entrepreneurship should be promoted, and credit should be considered a human right. Microcredit has far-reaching effects, and its implications are endless: during my experience with Grameen, it became evident that microcredit could act as a gateway to other basic rights such as nutrition, healthcare, and education. The greatest step toward eliminating poverty is the provision of financial services to the poor. However, because our current understanding of economics does not recognize self-employment, there are no supportive institutions and policies to promote these endeavors.

The money-lending business has served as an expensive alternative to official institutions, but it often undermines individual efforts to alleviate situations of poverty. Moneylenders can charge exorbitant interest rates that initiate an endless cycle of poverty and debts. The new system should target the detrimental effects of money-lending by freeing borrowers from high interest rates and any pressures or legal requirements to repay loans. With credit accepted as a human right, those who do not possess anything—the neediest members of society—have

the highest priority in obtaining loans. All human beings, including the poorest, are endowed with endless promise, and the poorest are entitled to credit and loans to begin their lives.

### *Correcting the Problems of Conventional Banking*

Conventional banks' exclusion of the poor results from their overarching motivation of maximizing profit. In order to attain attractive returns for investors, banks grant loans based on the borrower's collateral in order to ensure loan repayment. In effect, banks' lending policies are based on the principle that wealth begets more wealth, which only suggests that poverty results in more poverty. The poor, who lack collateral, receive nothing from banks because they have nothing to offer. As a result, more than half of the world's population is deprived of the financial services of conventional banks.

A new system of banking, such as the methodology espoused by Grameen Bank, is very different from that of conventional banking. It is focused not on profit but on the needs of its borrowers. Such banks are built with a different mission in mind: the objective is to bring financial services to the impoverished, particularly women and the poorest of the poor, to aid them in their fight against poverty and ensure that their business endeavors remain financially sound. It is a composite objective with both social and economic visions.



**Opposite:** A woman in Dhaka, Bangladesh, tends her paddy field, which she owns thanks to a Grameen Bank microloan. **Above:** Muhammad Yunus (R) and Mosammat Taslima of Grameen Bank display their 2006 Nobel Peace Prizes.



To ease the credit process for the poor, loans should be collateral-free. There are many bureaucratic policies and practices in conventional banking that discriminate against the poor, including a provision to enforce a contract by external legal intervention. Legal pressures and conventional banks' tendency to punish so-called "defaulters" deter the poor from borrowing, and in many cases, the desperate agree to conditions that bring them deeper into debt. In the service of lifting the poor from poverty, many unnecessary policies should be streamlined. For example, the bank should work with borrowers who cannot pay on time to reschedule their loans without further consequence; indeed, they have not done anything wrong. Interest rates should be lowered enough to support just the sustainability of the program—in Grameen's case, the cost of funds plus 10 to 15 percent. Instead of oppressing its borrowers, this system works to assist them in times of difficulty and makes all effort to help them regain their strength and overcome struggles.

Comprehensive services for borrowers support the poor, nurture communities, and ensure the social efficacy of loans. Credit in the hands of women has raised their status within families, empowering forgotten members of the community and facilitating their transformation into local leaders. Research shows that women tend to spend more of their earnings on their families, investing in their children and therefore enhancing the human capital of the community. By monitoring the education of children in client communities, giving scholarships and student loans, and tracking the progress of housing and sanitation, access to potable water, and communities' capacity for meeting emergency situations, banks can play an integral role in community building. En-

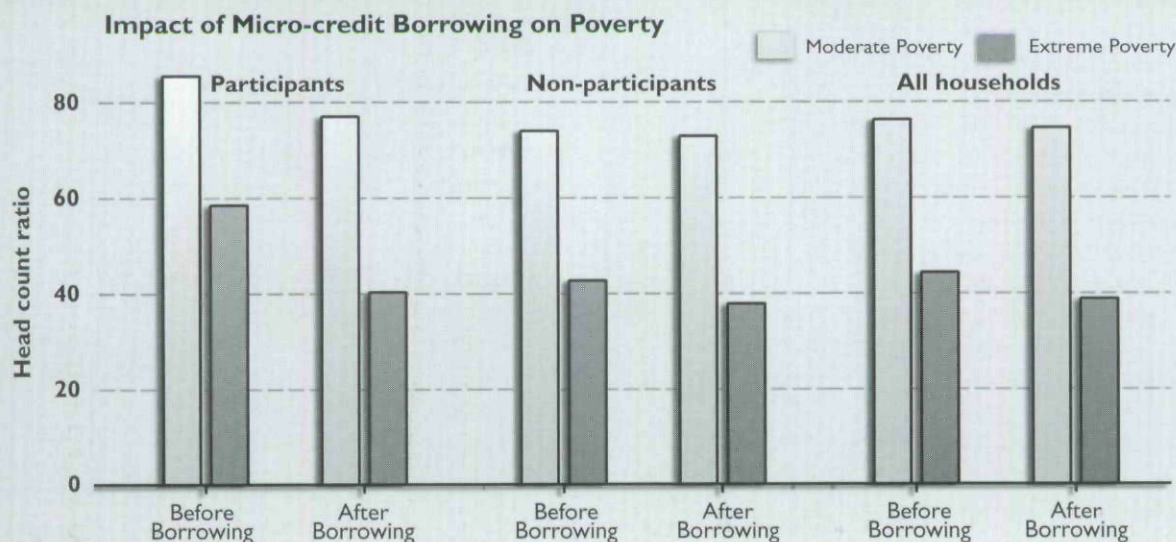
suring that its loans are used efficiently to create sustainable enterprises, a bank can help its client rise above a previous cycle of poverty and debt.

In order to facilitate the distribution of credit to the poor, a new bank would go to the doorstep of its borrowers. The clients do not go to the bank; rather, the bank goes to the people. Grameen provides an apt example: the branches of Grameen Bank are situated in rural areas, unlike the branches of conventional banks, which are generally located in business districts and urban centers. Every week, Grameen Bank's 12,000 staff members meet 3.2 million borrowers in 45,000 different villages spread around Bangladesh to deliver individualized bank services. While doing business this way creates more work for the bank, it is far more convenient for its borrowers, who otherwise would not have access to credit. The guiding philosophy of microcredit is simple: banks should not choose or dictate the ways in which borrowers use their loans. Members should have the freedom to determine how to maximize the benefits of their loans given their existing or potential skills. For the over 80 percent of the Bangladeshi poor who have access to microcredit, there is sufficient evidence to show that when the poor are given the tools for change, they can build sustainable communities and significantly improve their standards of living.

### *The Impact on the Poor*

Independent studies show that microcredit has a host of positive effects on the families that receive it. A World Bank study in 1998 reported that five percent of Grameen Bank members move out of poverty each year. Similarly, a 2003 World Bank study by Shahid Khondkar shows that micro-

## MAKING MICRO-MAGIC



This graph presents data from a 2004 World Bank study of the effects of micro-finance in reducing poverty. The results are based on surveys of 3,276 households in Bangladesh, and show a marked reduction in both moderate and extreme poverty for both recipients of microloans as well as non-participating members of their community.

Shahidur R. Khandker, The World Bank



credit programs operating in Bangladesh over an extended period have produced a greater impact on extreme poverty than on moderate poverty. Khondkar concludes, "The results of this study strongly support the view that microcredit not only affects the welfare of participants and non-participants but also the aggregate welfare at village level." His findings support the notion that long-term poverty reduction efforts at the village level become more sustainable as the general level of local education and healthcare improves. Indeed, impact studies of Grameen replicators in other countries, such as ASHI, Dunganon, and CARD in the Philippines; SHARE and ASA in India; and Nirdhan and SBP in Nepal all show increases in income among their borrowers.

The role of microcredit in disaster situations and post-conflict areas has also been well documented. When

schools. Significant investments in human capital are key to preventing recurring cycles of poverty.

### *Social Business: An Innovative Way Forward*

Another way of rethinking our current economic framework is through the concept of social business. This is a new kind of business that has the sole objective of making a difference in the world. Investors in a social business would recoup their investment money but would not make any profit off the company. Instead, all profit would be reinvested into the company to expand its outreach and improve the quality of its products and services. A social business would be a non-loss, non-dividend company. Once social business is recognized by law, Grameen envisions that many existing companies will come forward to create social businesses in

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financial services are flexible, convenient, and easily accessible, microcredit programs allow families in such areas to rebuild economic activities and livelihoods. Studies have also shown that microcredit programs improve the coping mechanisms of the poor. This phenomenon was very clearly demonstrated during times of disaster, such as the 1998 floods in Bangladesh. More recently, microcredit has helped more than 10,000 families in war-torn Kosovo move out of poverty. A large number of Grameen Bank impact studies have been made from a variety of perspectives, but in every study, research findings show significant impact on Grameen members across a wide range of economic and social indicators. These effects include increased income, improved nutrition, better housing, lower child mortality rate, lower birth rate, better healthcare, better access to childhood education, and many others.

According to Grameen Bank's own internal survey, 42 percent of its borrower families had crossed the poverty line by 2001. This figure was attained through evaluations based on the bank's 10 indicators of poverty—the size of the loan, amount of savings, housing condition, furniture in the house, provision of warm clothing, education of the children, access to water, sanitation, nutrition, and adequate health care—set by Grameen Bank to track the impact of its program on the poor families that it serves. To prepare the next generation to stay out of poverty and end the recurring cycle, Grameen Bank encourages the children of Grameen families to enroll in school, stay there, and do well. Grameen Bank offers scholarships to the top students of each branch and gives student loans to all students who are going to universities, medical schools, engineering schools, or other professional

addition to their foundation activities. Activists from the non-profit sector will also find this an attractive option. Currently, those who work in the non-profit sector must collect donations to maintain activities, but a social business is self-sustaining and will create surplus for expansion because of its status as a non-loss enterprise. And as social businesses begin to gain recognition, a new type of capital market will arise to serve their capital-raising needs. Almost all of the world's social and economic problems can and will be addressed through social businesses. The challenge is to create innovative business models and apply them to produce desired social results in a cost-effective and efficient manner. Social businesses could cover an array of services in developing countries. Exciting ideas for such businesses include healthcare, information technology, and education for the poor, as well as renewable energy. The list is endless. I believe that young people around the world, particularly in rich countries, would find the concept of social business very appealing, as it would provide a chance to enact change for the better. Special academies could be set up to train social business entrepreneurs, and customized social-MBA courses could be set up in universities to guide and inform the dreams of the next generation. These educational activities would mainly instruct entrepreneurs of social businesses, while training and recruitment of other employees could be carried out as they are in other traditional businesses.

A second type of social business falls within the profit-maximizing scheme employed by most companies today. A company guided by the principle of profit maximization may be designed as a social business by giving full or majority ownership to the poor. Grameen Bank falls under this cat-



egory of social business: it is owned by the poor. The poor can obtain shares of these companies as gifts from donors, or they can buy the shares with their own money. In the case of Grameen Bank, the borrowers buy non-transferable shares with their own money, while a committed professional team does the day-to-day running of the bank. Social business of this type may be created quite easily through cooperation with bilateral and multilateral donors. When a donor intends to give a loan or a grant to build a bridge in the recipient country, it could create instead a "bridge company" owned by the local poor. Profits would go to the local poor as dividend and could go toward projects such as the building of more bridges. A wide array of infrastructure projects—the construction of roads, highways, airports, seaports, and utilities—could all be completed in this manner.

Grameen Bank has created two social businesses of the first type. One is a yogurt factory that produces fortified yogurt for the nutrition of malnourished children, a joint venture with Danone. The company Grameen-Danone will



**With a microloan from the Grameen Bank microcredit program, this woman from Joypura was able to purchase a cell phone, which she offers to other villagers for a small fee.**

provide nutritious yogurt to poor people for a cost of around Tk.5, which is significantly less than the over Tk. 50 market price of similar products. The joint venture will continue to expand until all malnourished children in Bangladesh have access to fortified yogurt. A second social business initiated by Grameen is a chain of eye-care hospitals. Each hospital will undertake, on average, 10,000 cataract surgeries per year

and offer prices that are affordable for the poor.

There is also great potential in the intersection of social business principles and access to technological innovation. I see great opportunity for the poor to change their lives, if only they could harness the power of inexpensive, instantaneous communication and technology to meet their needs. An example of a project that resulted from this vision was a mobile phone company, Grameen Phone. Loans from Grameen Bank allowed poor women to buy mobile phones, which they then used to sell phone service in villages. The synergy of microcredit and information technology created a successful phone business and a coveted enterprise for Grameen borrowers. In Bangladesh, over 300,000 telephone ladies, as they are called, quickly learned and innovated in the business of telephone service, and the mobile phone business has become a quick way to move out of poverty and to earn social respectability. It is my hope to ultimately turn Grameen Phone into a social business, with majority ownership transferred to poor women while continuing to benefit communities by providing useful products and services.

To connect investors with social businesses, we also need to create a social stock market in which only the shares of social businesses will be traded. Investors will come to this stock exchange with the clear intention of finding a social business with a mission they would like to support. To enable such a social stock-exchange to function properly, we will need to establish rating agencies, standardize terminology and definitions, and create impact measurement tools, reporting formats, and new financial publications, perhaps something like *The Social Wall Street Journal*. Business schools will need to offer courses and social business management degrees. Such instruction will be key in training young managers to administer social business enterprises in the most efficient manner, and, most of all, in inspiring them to become social business entrepreneurs themselves.

### ***Poverty as Distant History***

Poverty exists because we built our theoretical framework on assumptions that underestimate human capacity. We designed concepts that are too confined (business, credit-worthiness, entrepreneurship, and employment) and developed institutions that remain half-finished, exclusionary, and inhibitive. Our present financial institutions are a prime example of establishments of our own creation that leave out the greater segment of our world population—the poor. However, I firmly believe that we can create a poverty-free world if we collectively believe and participate in it, rethinking our institutions and policies while building practices that expressly service the needs of the poor.

My experiences have given me unshakeable faith in human beings' creativity. Humans are not born to suffer the misery of hunger and poverty. We must create an enabling environment in which the poor can unleash their energy and creativity to make poverty a distant memory. ■

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